

**LAPEER COUNTY
COMMUNITY MENTAL HEALTH
Lapeer, Michigan**

ANNUAL FINANCIAL REPORT

**FOR THE YEARS ENDED
SEPTEMBER 30, 2007 AND 2006**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER COUNTY COMMUNITY MENTAL HEALTH

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INDEPENDENT AUDITOR'S REPORT

To the Lapeer County Community
Mental Health Board
Lapeer, Michigan

We have audited the accompanying basic financial statements of Lapeer County Community Mental Health, a special revenue fund of Lapeer County, Michigan, as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. Our responsibility is to express an opinion on the financial statements based on our audit.

As discussed in Note 1, the financial statements present only the Lapeer County Community Mental Health, as of September 30, 2007 and 2006, and do not purport to and do not present fairly the financial position of Lapeer County, Michigan, and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lapeer County Community Mental Health as of September 30, 2007 and 2006, and the changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Lapeer County Community Mental Health. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple

Certified Public Accountants

May 12, 2008

LAPEER COUNTY COMMUNITY MENTAL HEALTH

BALANCE SHEET SEPTEMBER 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 1,239,222	\$ 1,679,671
Accounts receivable -		
Fees	8,440	3,170
Other	33,073	96,825
Due from other governmental units -		
State	42,968	20,861
Local	411,368	44,447
Prepaid expenditures	44,946	9,337
Advance to other funds	7,500	7,500
Restricted Assets -		
Cash - Accrued vacation and sick	104,850	93,965
- Risk Corridor Financing	329,791	316,198
	<u>329,791</u>	<u>316,198</u>
Total Assets	<u>\$ 2,222,158</u>	<u>\$ 2,271,974</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 1,019,044	\$ 969,615
Accrued payroll and payroll taxes	62,899	79,969
Due to other governmental units -		
State -	-	74,435
Local	35,107	202,539
Deferred revenue	94,537	76,256
Total Liabilities	<u>1,211,587</u>	<u>1,402,814</u>
Fund Equity:		
Reserved -		
Prepaid expenditures/advance	52,446	16,837
Accrued vacation and sick time	104,850	93,965
Risk Corridor Financing -	329,791	316,198
Unreserved -		
Undesignated	523,484	442,160
Total Fund Equity	<u>1,010,571</u>	<u>869,160</u>
Total Liabilities and Fund Equity	<u>\$ 2,222,158</u>	<u>\$ 2,271,974</u>

See Notes to Financial Statements

LAPEER COUNTY COMMUNITY MENTAL HEALTH

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007
WITH ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	2007			2006
	Original Budget	Amended Budget	Actual	Actual
Revenues:				
Intergovernmental -				
Federal/State	\$ 2,370,692	\$ 2,292,843	\$ 2,161,906	\$ 2,217,908
Local	297,735	297,735	297,735	297,735
Charges for services	10,986,473	10,995,973	11,412,592	10,608,891
Interest and rents	83,000	117,000	134,736	127,296
Other revenue	147,514	184,014	203,204	172,145
	<u>13,885,414</u>	<u>13,887,565</u>	<u>14,210,173</u>	<u>13,423,975</u>
Expenditures:				
Personnel costs	3,918,108	3,881,223	4,148,485	4,088,995
Supplies	281,326	277,000	240,458	233,693
Contracted services	1,773,769	1,990,098	1,925,255	1,675,247
Utilities	100,541	100,541	101,494	85,452
Travel	51,000	47,100	35,345	39,690
Repairs and maintenance	70,000	65,000	35,847	57,076
County cost allocation	355,067	355,067	355,064	300,538
Education & training	1,000	18,950	11,219	14,029
Subscription & memberships	14,730	17,230	11,868	23,155
Rent/Leases	295,248	295,248	220,130	277,307
Equipment purchases	30,000	80,250	86,897	63,345
Community inpatient	618,000	760,000	824,946	674,524
Group homes	2,591,000	2,435,707	2,385,205	2,556,390
Foster care	1,638,279	1,663,279	1,808,823	1,538,796
Day programming	836,000	888,000	890,497	767,742
Guardianships	14,420	18,400	18,100	15,670
Respite services	268,836	322,976	323,359	258,445
Crisis residential	80,000	30,000	13,639	38,929
State institutional	428,561	304,295	329,738	353,600
Medicaid drawdown	213,481	213,481	213,481	213,481
Grants	117,662	106,036	82,821	47,608
Other	188,386	17,684	6,091	1,303
	<u>13,885,414</u>	<u>13,887,565</u>	<u>14,068,762</u>	<u>13,325,015</u>
Revenues over expenditures before transfers	-	-	141,411	98,960
Transfers to other funds	-	-	-	(28,212)
Revenues over expenditures	-	-	141,411	70,748
Fund Balance at beginning of year	<u>869,160</u>	<u>869,160</u>	<u>869,160</u>	<u>798,412</u>
Fund Balance at end of year	<u>\$ 869,160</u>	<u>\$ 869,160</u>	<u>\$ 1,010,571</u>	<u>\$ 869,160</u>

See Notes to Financial Statements

LAPEER COUNTY COMMUNITY MENTAL HEALTH

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Lapeer County Community Mental Health (LCCMH) conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities and the Uniform Accounting Manual for County Mental Health as prescribed by the State of Michigan. The following Notes to the Financial Statements are an integral part of the financial statements.

A. Reporting Entity –

These financial statements present the financial position and the result of operation of the Lapeer County Community Mental Health, a special revenue fund of Lapeer County, Michigan.

The Lapeer County Community Mental Health activities are under the control of the Mental Health Board which consists of twelve (12) County appointed members with the daily activities operated under the Director. The Board operates as a Community Mental Health Board under the provisions of Act 258 – Public Acts of 1974, as amended. The Board provides funding for services in the areas on mental illness, developmental disabilities, and other related mental health needs for residents of Lapeer County.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The LCCMH uses a fund (i.e. a separate accounting entity with self-balancing set of accounts) to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Charges for services, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual, and therefore have been recognized as revenues of the current fiscal period.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then the unrestricted resources as needed.

LAPEER COUNTY COMMUNITY MENTAL HEALTH

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Assets, Liabilities, and Net Assets or Equity –

Cash and Cash Equivalents – The Board's cash and cash equivalents are cash on hand, demand deposits, and cash on deposit with Lapeer County.

Receivables – All receivables are shown net of allowances for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

Restricted Assets – The Michigan Department of Community Health (DCH) provides funding for accrued vacation and sick time as it is earned, regardless of when paid. In addition DCH allows mental health organizations to establish a separate account to cover the risk exposure under the Managed Care Specialty Services Program.

Capital Assets – Are recorded as expenditures at the time of purchase in these fund financial statements. Capital assets owed by the Board/County are not included in these statements.

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have a vested right upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. The obligations for these benefits are not recorded in the fund financial statements since they are not currently due. The balance of vested vacation at September 30, 2007 and 2006 was \$104,850 and \$93,965, respectively.

Deferred Revenues – Revenues received or recorded before it is earned is recorded as deferred revenue. Revenues that are not both measurable and available are recorded as deferred revenues.

Budgets – The budgets shown in the financial statement were prepared on the same modified accrual basis used to reflect actual results. The budgets shown in the financial statements are approved by the Mental Health Board at the department level and by the County Board of Commissioners at the functional level. The Board does not employ encumbrance accounting as an expansion of budgetary integration and an unexpended appropriations lapse at year-end.

Fund Equity – The fund (modified accrual) statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAPEER COUNTY COMMUNITY MENTAL HEALTH

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 2 – DEPOSITS AND INVESTMENTS:

As of September 30, 2007 and 2006, the carrying amount of deposits and investments is as follows:

	<u>2007</u>	<u>2006</u>
Cash on Hand		
Petty Cash	\$ 1,810	\$ 1,500
Deposits with Financial Institution		
Imprest Checking	1,000	1,000
Deposits with County Treasurer	<u>1,671,053</u>	<u>2,087,334</u>
	<u>\$ 1,673,863</u>	<u>\$ 2,089,834</u>

As a fund of Lapeer County, the County Treasurer maintains all cash and investments, except petty cash and an imprest checking account. All monies are deposited with the County Treasurer and all disbursements are made by the County.

The Mental Health's cash is included with other County cash and investments, therefore, the extent to which the Board's cash and cash equivalents are insured cannot be determined. Information on the County's investment policy and various risk categories may be obtained from the Lapeer County Annual Financial Report.

NOTE 3 – LEASE AGREEMENTS:

The Board has entered into the following lease agreements with the County for the use of facilities, vehicles, and copiers.

<u>Fiscal Year Ending Sept. 30,</u>	<u>Facilities</u>	<u>Copiers/ Vehicles</u>
2007	\$ 199,980	\$ 18,012
2008	195,954	16,632
2009	197,919	6,408
2010	197,919	-
2011	197,919	-
2012	197,919	-
2013-2017	505,086	-
2018-2022	176,183	-
2023	<u>18,390</u>	<u>-</u>
	1,887,269	41,052
Less 2007	(<u>199,980</u>)	(<u>18,012</u>)
	<u>\$ 1,687,289</u>	<u>\$ 23,040</u>

LAPEER COUNTY COMMUNITY MENTAL HEALTH

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 3 – LEASE AGREEMENTS – (cont'd):

The Board has entered into certain operating lease agreements for residential facilities. At September 30, 2007, the minimum future rental on non-cancelable leases for facilities is as follows (a number of these leases contains provisions whereby if the funding is “reduced” or “terminated”, the leases are cancelable):

<u>Fiscal Year</u> <u>Ending Sept. 30,</u>	<u>Facilities</u>
2007	\$ 98,842
2008	98,196
2009	83,131
2010	83,675
2011	52,360
2012	25,827
2013	<u>5,133</u>
	447,164
Less 2007	(<u>98,842</u>)
	<u>\$ 348,322</u>

NOTE 4 – STATE OF MICHIGAN SETTLEMENT:

As is common for Mental Health Authorities, the Lapeer County Community Mental Health Authority receives a significant portion of its revenues through its contract with the State of Michigan Department of Community Health (MDCH), with a settlement reached at the end of each fiscal year. The settlement is based on accumulated reimbursable cost and is subject to final audit by the Department of Community Health.

NOTE 5 – CONTINGENT LIABILITIES:

As required by Michigan Department of Community Health (MDCH) a “compliance examination” was performed for the year ended September 30, 2007 in accordance with the CMH Compliance Guidelines issued by MDCH. This report has been issued under separate cover. The compliance examination resulted in a finding that questioned the reporting of “match” monies received from other entities in the amount of approximately \$101,000. Management believes they have reported it correctly and plan to vigorously defend the reporting. If the Board is unsuccessful, they would be required to repay either MDCH or the PIHP approximately \$101,000. Because of the inclusive nature no liability has been recorded.

LAPEER COUNTY COMMUNITY MENTAL HEALTH

**DETAILED SCHEDULE OF REVENUES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2007
WITH ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	2007			2006
	Original Budget	Amended Budget	Actual	
Intergovernmental:				
Federal/State -				
Department of Community Health	\$ 2,091,260	\$ 2,028,412	\$ 1,882,505	\$ 1,983,394
Title XX replacement	2,823	2,823	2,823	2,823
ABW	162,224	166,998	174,376	150,771
MI Child	19,983	19,983	16,353	19,915
Anti-Stigma Campaign Grant	38,935	25,160	32,148	31,915
Drop-in Center Enhancement	-	-	-	4,866
Peer Support Specialist Grant	24,867	24,867	24,867	-
Recovery Education Grant	10,600	10,600	10,600	-
Respite Grant	-	-	-	2,199
OBRA	20,000	14,000	18,234	22,025
	<u>2,370,692</u>	<u>2,292,843</u>	<u>2,161,906</u>	<u>2,217,908</u>
Local -				
County appropriations	297,735	297,735	297,735	297,735
	<u>2,668,427</u>	<u>2,590,578</u>	<u>2,459,641</u>	<u>2,515,643</u>
Charges for Services:				
Fees -				
Medicaid				
PIHP	10,810,973	10,810,973	11,159,441	10,367,508
Injectibles		25,000	18,289	-
Medicare	26,000	35,000	47,001	37,167
Private pay	22,000	15,000	13,286	25,532
Blue Cross Blue Shield	12,500	10,000	13,134	10,705
Other Insurance Companies	50,000	15,000	24,335	60,194
CMH to CMH	65,000	85,000	137,106	107,785
	<u>10,986,473</u>	<u>10,995,973</u>	<u>11,412,592</u>	<u>10,608,891</u>
Interest and Rents:				
Interest	83,000	117,000	134,736	127,296
Other Revenue:				
Local Contract	137,514	177,514	191,657	139,972
Miscellaneous	10,000	6,500	11,547	32,173
	<u>147,514</u>	<u>184,014</u>	<u>203,204</u>	<u>172,145</u>
 Total Revenues	 <u>\$ 13,885,414</u>	 <u>\$ 13,887,565</u>	 <u>\$ 14,210,173</u>	 <u>\$ 13,423,975</u>

LAPEER COUNTY COMMUNITY MENTAL HEALTH
DETAILED SCHEDULE OF EXPENDITURES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
WITH ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	2007			2006
	Original Budget	Amended Budget	Actual	
Expenditures:				
Personnel Costs -				
Salaries and wages	\$ 2,817,786	\$ 2,742,703	\$ 2,681,930	\$ 2,500,096
Payroll taxes	274,101	274,474	259,594	238,765
Medical/Life/Optical insurance	491,952	529,777	520,277	410,419
Retirement	330,769	330,769	685,210	937,222
Physicals	3,500	3,500	1,474	2,493
Supplies -				
Postage	12,000	12,000	8,886	5,340
Office supplies	45,000	55,000	54,788	49,958
Pop & juice	-	-	-	4,520
Maintenance supplies	20,000	20,000	17,841	17,870
Drug/Pharmacy/Prescriptions	120,000	120,000	106,317	105,033
Therapy supplies	50,000	59,000	51,290	49,547
Food	2,500	2,500	1,336	1,305
Education	24,326	1,000	-	120
Other	7,500	7,500	-	-
Contracted Services -				
Board per diems	26,000	26,000	15,660	21,499
Physician	314,280	314,280	288,642	274,207
Psychologist	101,000	101,000	96,286	99,160
Financial	100,935	100,935	100,515	94,744
Janitorial	7,500	7,500	4,080	3,905
Nursing	52,000	52,000	45,513	44,056
Occupational therapy	3,000	3,000	536	1,107
Physical therapy	2,500	2,500	191	105
Dietician	1,000	1,000	140	367
Lab	12,000	12,000	2,143	6,905
Custodial services	39,861	39,861	38,421	38,329
Computer software	90,000	90,000	115,585	78,032
Transportation	415,000	415,000	402,853	407,942
Other	608,693	825,022	814,690	604,889
Telephone/Pagers	30,000	30,000	29,525	22,912
Utilities	70,541	70,541	71,969	62,540
Travel	51,000	47,100	35,345	39,690
Vehicle repairs, gas, oil, lube	30,000	25,000	15,706	22,239
Building repairs and maintenance	40,000	40,000	20,141	34,837
County cost allocation	355,067	355,067	355,064	300,538
Education/Training	1,000	18,950	11,219	14,029

Continued

LAPEER COUNTY COMMUNITY MENTAL HEALTH
DETAILED SCHEDULE OF EXPENDITURES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
WITH ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	2007			2006
	Original Budget	Amended Budget	Actual	
Subscriptions	750	750	356	437
Books/Library/Magazines/Periodicals	\$ 2,000	\$ 4,500	\$ 678	\$ 445
Dues and membership	11,980	11,980	10,834	22,273
Rent/Lease -				
Vehicles	34,236	34,236	9,012	34,236
Equipment	18,012	18,012	14,476	13,098
Building	241,000	241,000	196,642	229,238
ACT Apartment - emergency housing	2,000	2,000	-	735
Equipment	30,000	80,250	86,897	63,345
Community inpatient	618,000	760,000	824,946	674,524
Group Homes -				
Building leases	180,000	188,505	178,926	180,904
Adult residential service contracts	2,395,000	2,231,202	2,179,957	2,347,163
Equipment purchases	5,000	5,000	9,136	19,921
Building maintenance/repairs	10,000	10,000	17,186	8,402
Dental	1,000	1,000	-	-
Residential service contract (AFC)	1,638,279	1,663,279	1,808,823	1,538,796
Day programming	836,000	888,000	890,497	767,742
Guardianships	14,420	18,400	18,100	15,670
Respite services	268,836	322,976	323,359	258,445
Crisis residential	80,000	30,000	13,639	38,929
State institutional	428,561	304,295	329,738	353,600
Medicaid drawdown	213,481	213,481	213,481	213,481
Grants -				
Anti-Stigma campaign	38,935	26,559	33,547	31,915
MPCB - local grant	22,000	21,500	25,500	6,500
OBRA	6,000	6,000	11,924	4,327
Recovery Education	10,600	11,850	11,850	4,866
Peer Support Specialist	40,127	40,127	-	-
Miscellaneous	27,093	17,684	6,091	1,303
Contingency	161,293	-	-	-
Total expenditures before transfers	13,885,414	13,887,565	14,068,762	13,325,015
Transfer to Equipment Replacement Fund	-	-	-	28,212
Total expenditures and transfers	<u>\$ 13,885,414</u>	<u>\$ 13,887,565</u>	<u>\$ 14,068,762</u>	<u>\$ 13,353,227</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Lapeer County Community
Mental Health
Lapeer, Michigan

We have audited the basic financial statements of the Lapeer County Community Mental Health, a special revenue fund of Lapeer County, Michigan, as of and for the year ended September 30, 2007, and have issued our report thereon dated May 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Lapeer County Community Mental Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lapeer County Community Mental Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Lapeer County Community Mental Health's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting which is referenced as 07-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lapeer County Community Mental Health's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lapeer County Community Mental Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under ***Governmental Auditing Standards*** and which are described in the accompanying schedule of findings and questioned costs as items 07-02 through 07-14.

We noted certain matters that we reported to management of the Lapeer County Community Mental Health in a separate letter dated May 12, 2008.

This report is intended solely for the information and use of management, the Board, and others within the Lapeer County Community Mental Health, and is not intended to be and should be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beavers & Whipple".

May 12, 2008

LAPEER COUNTY COMMUNITY MENTAL HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

SECTION I – FINANCIAL STATEMENT FINDINGS:

Finding 07-01: Preparation of the Financial Statements in Accordance with GAAP

Condition: The LCCMH relies on the auditor to prepare the external financial statements in accordance with generally accepted accounting principles.

Criteria: Statement on Auditing Standards No. 112 “Communicating Internal Control Related Matters Identified in an Audit” specifies that the auditee is responsible for internal control over financial reporting. The financial reporting includes the financial statements, including the notes, be presented in accordance with Generally Accepted Accounting Principles. As is the case with many similar-size entities, the LCCMH relies on its independent auditors to assist in preparing the financial statements and footnotes.

Cause: The LCCMH has made the decision that it is more cost effective to outsource the preparation of its annual financial statements to the external auditors than to incur the time and expense of obtaining the necessary training and expertise required to prepare financial statements in accordance with generally accepted accounting principles.

Effect: As a result the entity lacks internal controls over the preparation of its financial statements in accordance with GAAP, and instead relied in the external auditors for assistance in the preparation.

Recommendation: None

View of Auditee: The government evaluates the cost vs. benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and has determined that it is in the best interest of the entity to outsource this task to its external auditors, and to carefully review the draft financial statements and notes, prior to approving them and accepting responsibility for their content and presentation.

SECTION II – MEDICAID AND GENERAL FUND FINDINGS AND QUESTIONED COSTS:

Finding 07-02: Lease/Depreciation for Buildings included the cost of land.

Condition: During our testing of the lease/depreciation for the building at 219 S. Saginaw it was noted that no value had been assigned to the cost of the land, thus depreciation was taken on the land value.

Criteria: A-87 specifically states that “the computation of depreciation or use allowance will exclude the cost of land”.

Effect: Although we did not have any original document that indicated the cost of land at 219 S. Saginaw, the Lapeer County fixed assets records have the value of the land at \$60,000. Based on this the lease depreciation expense was over stated by \$4,301.

Recommendation: The depreciation schedule should be revised to exclude depreciation on land.

Response: We agree and have appropriately revised our settlement report.

Finding 07-03: Capitalization of Equipment.

Condition: During the year the Board purchased a video conferencing system at a cost of \$18,078. This system was recorded as an expense rather than capitalized and depreciated over the life of the assets.

Criteria: Michigan Department of Mental Health guidelines and A-87 requires that all assets with an individual cost of \$5,000 or more be capitalized and depreciated over the life of the asset.

Effect: If the equipment had been capitalized and depreciated, expenses would decrease by \$17,693 (\$21,231 less depreciation of \$3,538).

Recommendation: All assets with a value of \$5,000 or more should be capitalized and depreciated over the life of the assets.

Response: We agree and have appropriately revised our settlement report.

Finding 07-04: Capitalization of Computer Software.

Condition: During the year the PIHP purchased billing software that is utilized by all PIHP members, with Lapeer County Mental Health's portion of \$50,400. The LCCMH recorded the software as an expense to the current year.

Criteria: Since the software has an estimated life in excess of one (1) year and a value of \$5,000, A-87 requires that the software be capitalized and depreciated over the life of the asset.

Effect: If the software had been capitalized and depreciated, expenses would decrease by \$42,000 (\$50,400 less depreciation of \$8,400)

Recommendation: All assets with a value of \$5,000 or more should be capitalized and depreciated over the life of the assets.

Response: We agree and have appropriately revised our settlement report.

Finding 07-05: Match Provided From Subcontractors.

Condition: The LCCMH requires three subcontracts provide the 10% local match, or \$101,628, for the services that the subcontractors are providing. Two (2) of three (3) contracts specify that the required match share payment does not come from State or Federal sources. These amounts are then shown on the FSR as local funding and used towards the match if needed.

Criteria: The DCH CMH compliance examination guidelines provide examples of funds that do NOT qualify as a local match and they include "donations of funds from subcontractors" of the PIHP or CMHSP". Also A-87 specifies for cost to be allowable that they must be "net of any applicable credits". In defining credits A-87 states, "to the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate".

Effect: The LCCMH local match requirement based on the original report filed for the year indicated a local required local match of \$424,202. With these local dollars the LCCMH had \$517,347, therefore the Board met the local match requirement. However, in establishing the rates the cost would decrease by \$101,628.

Recommendation: All expenses should be reported net of "credits".

Response: DCH contract guidelines allow funds to be used as local match "from fee-for-service contract agencies and/or network providers as part of the agencies' contractual obligation." LCCMH should continue to require Lapeer Teamwork, GLTA, and Growth and Opportunity to contribute local matching funds. These

organizations will be required, through a contract amendment, to provide attestation that matching funds are not from State or Federal sources.

Finding 07-06: Accrual of Audit Fee.

Condition: The LCCMH accrued the cost of the financial and compliance audit for the fiscal year ended September 30, 2007 although the services were not provided until after the end of the fiscal year.

Criteria: Since the services had not been provided at September 30, 2007 the expenses do not qualify for accrual under generally accepted accounting standards.

Effect: Expenses were overstated by \$15,000.

Recommendation: LCCMH should adopt procedures so that only services that were provided or goods that were received should be recorded as a liability at the end of the fiscal year.

Response: We agree and have appropriately revised our settlement report.

Finding 07-07: Insurance Certificate.

Condition: The contracts with the residential and AFC providers specify that the LCCMH is to be named as an additional issuer and that a copy of the insurance certificate is to be provided to LCCMH. During our testing we noted that one residential provider and three AFC providers certificates did not name the LCCMH as additional insurer.

Criteria: Compliance with contract requirements.

Effect: No financial effect. However, LCCMH is not covered by provider's insurer.

Recommendation: The LCCMH should adopt procedures to assure that it is named as additional insurer for residential and AFC providers.

Response: LCCMH requires all providers to maintain liability insurance. As additional insured on provider policies, LCCMH is notified by insurance companies when policies are modified, not renewed, or terminated. This allows LCCMH to monitor provider insurances. To reduce provider costs associated with including LCCMH as additional insured on their policies, LCCMH will modify contract requirements to allow providers to request companies to include the Board as a "Certified Holder" only. This will in most cases reduce insurance costs for residential subcontract providers and allow LCCMH to continue to monitor insurances.

Finding 07-08: Payments in excess of contract.

Condition: The contracts with the residential and AFC providers specify a per unit rate and a not to exceed maximum for each contract. During our testing we noted the following contracts where providers were paid in excess of the not-to-exceed maximum amount of the contract:

- Residential Contracts			
o Hadley Hills	\$226,227	\$227,553	\$ 1,326
- Other Contracts			
o Lapeer Team Work	\$260,000	\$265,039	\$ 5,039
o Growth & Opportunity	\$580,000	\$582,478	\$ 2,478

Criteria: The contract specifies a maximum amount of the contract therefore under DCH guidelines and A-87 these would be considered unallowable costs.

Effect: The amounts paid exceed the contract by \$8,843, however because the amount paid were based on the number of units provided, and the number of units provided also exceed contract, there was no associated questioned costs.

Recommendation: If the number of units exceeds the contract amount and the cap of the contract and the LCCMH will pay for the addition days the contract should be amended prior to payment.

Response: All contract provider services are pre-authorized. Contracts are modified or amended when the level of service required changes. These amendments include an estimate of the total cost or annual CMH financial obligation. With the three contracts referenced, the total FY07 obligation was underestimated by \$8,843.

Finding 07-09: Copy of audit report, trial balances and management letters from subcontractors.

Condition: The contracts with certain subcontractors specify that a copy of the audit report, trial balance and management letter must be provided to LCCMH. We noted two instances where the information had not been obtained, from the subcontractors Lapeer Team Work and Growth & Opportunity. A draft copy of the Lapeer Team Works audit was in the file however no final, trial balances or management letters.

Criteria: Compliance with contract and review on amounts paid vs. cost.

Effect: No direct effect on costs, however, the LCCMH should be reviewing the cost of providing the services for subcontractors in evaluating rates. Also, the financial stability of subcontractors should evaluate each year and any significant internal control issues.

Recommendation: The LCCMH should adopt procedures to assure compliance with contract requirements.

Response: Copies of all required financial documents have been requested.

Finding 07-10: Documentation of Medicaid eligibility.

Condition: During our testing of case files it was noted that three (3) files out of forty (40) did not have the proper Medicaid eligibility documentation within 30 days of the date of service (Medifax or Web-Denis).

Criteria: Medicaid requires that providers determine that Medicaid is the biller of last resort. These documents are used by LCCMH to make these determinations.

Effect: Compliance with Medicaid rules and regulations, no questioned costs associated.

Recommendation: The LCCMH should adopt procedures to assure that the necessary information is included the case files.

Response: Medifax printouts are verified, printed, and filed monthly by clerical staff. These printouts are not filed in individual files. As of October 1, 2008, our new software system (OASIS) automatically verifies Medicaid eligibility for all consumers.

Finding 07-11: Documentation of insurance coverage.

Condition: Seven (7) files out of thirty-four (34) did not have copies of insurance cards/documentation.

Criteria: LCCMH policy requires that a copy of the insurance cards be obtained.

Effect: Compliance with Board policy, no questioned costs associated.

Recommendation: The LCCMH should adopt procedures to assure that the necessary information is included the case files.

Response: Medicaid cards are copied at Intake UNLESS the consumer forgot or lost his/her card. If consumers do not have the required documentation, they are asked to submit documentation at their next scheduled visit. As of October 1, 2008, our new software system (OASIS) automatically verifies Medicaid eligibility for all consumers.

Finding 07-12: Income Verification.

Condition: Eleven (11) out of fourteen (14) files did not have documentation of income verification.

Criteria: MDCH requires that documentation of income be obtained to determine the ability to pay.

Effect: Compliance with MDCH regulations, no questioned costs associated.

Recommendation: The LCCMH should adopt procedures to assure that the necessary information is included the case files.

Response: As a part of the intake and annual review process, consumers are asked to submit proof of income. If documentation is not submitted, a copy of the most current Adjusted Gross Income is obtained from the State as income verification.

Finding 07-13: Allocation of payroll to cost centers.

Condition: Certain employees are charged to more than one cost center however the allocation is based on estimates by the supervisors.

Criteria: A-87 requires that employees that “work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation”.

Effect: Salaries and wages could be allocated to the incorrect cost center. The effect, if any, is unknown.

Recommendation: When employees are charged to more than one cost center the employee should be required to prepare a personal activity report specifying the cost center worked and the amount of time for each.

Response: In connection with the PIHP, we are in the process of evaluating and adopting policy regarding the funding.

Finding 07-14: Allocation of Executive Director Department.

Condition: On worksheet A, Gross (GF) Cost Allocation Schedule, the executive director was over allocated by \$2,168.

Criteria: When allocating costs, it is not possible to allocate more than 100% of cost.

Effect: Cost in determining gross rates was overstated by \$2,168. This had no financial effect since it did not affect the Medicaid rates.

Recommendation: The LCCMH should adopt procedures to review and detect any problems with the allocation and rate determination.

Response: We agree and have appropriately revised our settlement report.